
Finance

BUSINESS PLAN 2004-07

ACCOUNTABILITY STATEMENT

The Business Plan for the three years commencing April 1, 2004 was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as of February 27, 2004 with material economic or fiscal implications of which I am aware have been considered in preparing the Business Plan.

The Ministry's priorities outlined in the Business Plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this Business Plan.

[original signed]

Patricia L. Nelson, *Minister of Finance*
March 4, 2004

THE MINISTRY

The Ministry of Finance includes the Department of Finance, Alberta Capital Finance Authority, Alberta Pensions Administration Corporation, ATB Financial, Alberta Insurance Council, Credit Union Deposit Guarantee Corporation and their subsidiaries. The Ministry of Finance also includes the activities of a number of companies in wind-up.

The Department of Finance has four main areas: Office of Budget and Management; Pensions, Insurance and Financial Institutions; Treasury Management; and Corporate Support.

The Finance Business Plan incorporates all the entities reporting to the Minister into an integrated strategic plan that focuses on the key priorities for the Ministry. The following plan does not include the day-to-day activities of the Ministry.

LINK TO THE GOVERNMENT STRATEGIC BUSINESS PLAN

This plan supports the 3-Year Government of Alberta (GOA) Business Plan to have a prosperous economy (Goal 7), which is aligned with the 20-Year Government of Alberta Strategic Business Plan of competing in a global marketplace (Opportunity 3). The Finance plan provides support by keeping taxes competitive and the regulatory system effective.

The plan also supports the 3-Year GOA Business Plan of having a financially stable, open and accountable government (Goal 8). This is aligned with the 20-Year Strategic Plan of making Alberta the best place to live, work and visit (Opportunity 4). Support is provided through the ministry's efforts to smooth out fluctuations in resource revenue, eliminate debt on schedule, keep spending affordable, ensure future sustainability of revenue to meet needs, monitor performance and assist with capital planning and financing for infrastructure.

Finally, the Ministry Plan supports the 3-Year GOA Business Plan to have an effective, responsive and well-managed local government (Goal 6), which is aligned with the 20-Year Strategic Plan to make Alberta the best place to live, work and visit (Opportunity 4). The ministry provides support through the Alberta Capital Finance Authority.

VISION

A province that is innovative and globally competitive with a fiscally sustainable and accountable government

MISSION

Develop and implement the government's fiscal framework and financial policies.

CORE BUSINESSES

Core Business 1: Fiscal Planning and Financial Management

Goal 1 - A financially strong, sustainable and accountable government

Goal 2 - A fair and competitive provincial tax system

Goal 3 - Effective management of financial assets, liabilities and risk

Core Business 2: Regulation of Provincial Financial Institutions

Goal 4 - Reliable and competitive financial and insurance products and services

Core Business 3: Pensions Policy, Regulation and Administration

Goal 5 - Pensions that deliver on promises

Core Business 4: Financial Services

Goal 6 - Quality and competitive financial services accessible to Albertans and local authorities

SIGNIFICANT OPPORTUNITIES AND CHALLENGES

Maintaining a strong and sustainable financial position poses challenges. Changing world economic conditions, exchange rates and energy prices impact Alberta's economy and fiscal plan. The decline of high royalty rate conventional energy revenues is an issue that is being addressed. Disasters and emergencies, such as BSE and severe weather conditions, are unpredictable events that can have budget consequences. Volatile capital markets can affect pension plans and endowment funds like the Alberta Heritage Savings Trust Fund, especially if markets are weak for extended periods. The Sustainability Fund will help manage risks from energy and other revenues, as well as disasters and emergencies. An aging population and early retirements will also impact pension plans. Recognizing pressures on pension plans will enable stakeholders to work together to review pension plan governance and establish stabilizing strategies.

STRATEGIC PRIORITIES 2004-07

Through the Ministry's review of external and internal challenges, the strategic priorities described below have been identified. These are in addition to the important ongoing core activities of the Ministry.

**1. Maintaining
Alberta's Fiscal
Framework**

Linkage: Goal 1

The government's new fiscal framework is designed to provide predictability, sustainability and continued discipline to prepare Alberta for the challenges that lie ahead, while maintaining a competitive tax environment. Finance will work with other ministries to maintain a balanced approach in fiscal planning. In addition, Finance will implement the accepted Financial Management Commission (FMC) recommendations, including the risk analysis, three-year capital plans, alternative mechanisms for capital project financing, capitalization and amortization of assets, and continued refinements to the government reporting entity.

**2. Public-Private
Partnerships (P3s)**

**Linkage:
Goals 1 and 3**

Public-private partnerships (P3s) have been identified as one option to deliver capital projects, where appropriate. Finance provides financial expertise to other ministries on financing government and government-funded capital projects, ranging from construction to information technology. Finance also determines the appropriate accounting treatment and the impact on the Province's financial position and fiscal plan. Finance will assess the costs and risks of alternate financing vehicles, including P3s, and make recommendations to mitigate provincial financial risk and achieve optimal value for money.

**3. Enterprise-Wide Risk
Management**

Linkage: Goal 3

The Alberta government faces risks from a variety of sources. The concept of enterprise risk management is to identify the sources of risk to all major components of the Province's revenues and expenses and to use the collective strength of the enterprise to manage those risks with a comprehensive cost-effective strategy. In cooperation with other departments, Finance will develop an enterprise risk management framework and provide recommendations for government consideration.

4. Automobile Insurance

Linkage: Goal 4

The Government is committed to ensuring Albertans have access to affordable automobile insurance. Finance will work to implement recommendations from the government's review of automobile insurance, including issues respecting automobile injury claims and related premium increases.

**5. Public Pension
Plans Governance**

Linkage: Goal 5

Finance, in consultation with public sector boards and stakeholders, will review current governance arrangements for public pension plans (in the context of recent proposals for independence) with the objective of making recommendations to improve accountability to plan members and taxpayers.

CORE BUSINESSES, GOALS, STRATEGIES AND MEASURES

Core Business One: Fiscal Planning and Financial Management

GOAL ONE

A financially strong, sustainable and accountable government

What it means Maintaining Alberta's strong financial position means keeping the budget balanced and sustainable. Strategic fiscal planning and prudent economic forecasting are required to meet today's priorities and sustain essential programs and services over the longer term. The Alberta Sustainability Fund has been established to cushion ongoing operating spending plans from volatile energy revenues and the costs of emergencies and disasters. The new Fiscal Framework includes a three-year capital plan, with some funding of capital from the capital account and alternative financing arrangements. The government will continue to balance the budget every year in accordance with the fiscal framework and to reduce the province's existing debt as scheduled. The government will also continue to fulfill its legislated commitment to be accountable to Albertans by publishing three-year consolidated fiscal plans, quarterly fiscal updates and annual performance reports, including audited financial statements, as required by the *Government Accountability Act*.

In executing its leadership role for these initiatives, Finance will continue to assess the economic impact associated with issues of concern to Albertans, including the implementation of the Climate Change Strategy. The department will also take an active role in strategic corporate approaches to information technology investment, governance and accountability.

Strategies

- Assess the financial costs and risks to the government of proposed P3s and make recommendations to reduce provincial financial risk and optimize value for money.
- Continue overseeing cross-government implementation of the accepted Financial Management Commission (FMC) recommendations. Finance will concentrate on supporting further development of the capital plan. In response to the Public Sector Accounting Board's recommendations, Finance will also work with other ministries to determine what entities should be consolidated in the government's reporting entity, with planned implementation for fiscal years beginning with Budget 2006 at the earliest.
- Continue to repay accumulated debt in accordance with the legislated plan.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Alberta's credit rating	AAA	AAA	AAA	AAA
Accumulated debt less cash set aside for debt repayment	\$4.7 billion	\$3.0 billion	\$2.7 billion	\$2.7 billion
Number of accepted FMC recommendations ¹ implemented as scheduled	11 of 22 (2003-04) (accumulated)	15 of 22 (accumulated)	19 of 22 (accumulated)	22 of 22 (accumulated)
Percentage of Albertans who think they get enough information on the government's financial performance	63%	70%	70%	70%

¹ http://www.finance.gov.ab.ca/whatsnew/newsrel/2002/n020926_fmc_response.pdf

A fair and competitive provincial tax system

What it means

Government policy is a low rate, broad base policy approach to promote efficiency of the tax system. Taxes are necessary to provide the revenue that government needs to fund programs and services. The tax system must be fair and promote self-reliance. Our taxes must also be competitive with those in other provinces and countries with which Alberta competes, in order to attract the investment, jobs and skilled workers necessary to keep our economy performing well. Alberta has a low single rate income tax, the lowest tax on gasoline in the country and no general payroll tax. Alberta is the only province without a capital tax or a general retail sales tax.

Finance continues to work with the federal government, other provinces and territories to promote effective tax systems and collection arrangements.

Strategies

- As affordable, complete implementation of the Business Tax Plan to reduce the general corporate income tax rate from 11.5% to 8%.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Provincial tax load for a family of four ¹	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
Provincial tax load on businesses ¹	Third Lowest In Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada

¹ Shared measure with Alberta Revenue.

Effective management of financial assets, liabilities and risk

What it means

Finance through the Treasury Management Division has responsibility for the province's ongoing cash management including short-term borrowing and investing, management of banking arrangements and cash forecasting as well as arranging short and long-term financing for the government and provincial corporations. Through prudent management of liabilities and assets, the Ministry endeavors to minimize financing costs and maximize investment returns.

The Ministry has assumed a leadership role in developing an enterprise risk management framework so that the Alberta Government can effectively manage the day-to-day financial challenges.

Strategies

- Effective investment policies are in place to ensure optimal return.
- Develop an enterprise-wide risk management framework for government decisions.
- Invest the Sustainability Fund in high quality fixed income assets.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Return on:				
• Sustainability Fund	New		To be determined	
• Debt Retirement Account compared to the cost of the debt on the day the investment is made	6 basis points higher than market cost on matching debt	Greater	Greater	Greater
• Consolidated Cash Investment Trust Fund compared to ScotiaMcLeod 91 day Treasury Bill Index	Under performed by 4 basis points ¹	Greater by 10 basis points ¹	Greater by 10 basis points ¹	Greater by 10 basis points ¹
All in cost of debt issued compared to an issue of comparable term in the Canadian public debt market	Cost Lower by \$596,500 on \$100 million ²	Lower	Lower	Lower
Government decision on enterprise risk management program	Research phase completed	Government approval of framework	Program Implemented	Program Implemented

¹ Basis point is 1/100 of a percent.

² Amount raised via private placements during the year.

Core Business Two: Regulation of Provincial Financial Institutions

GOAL FOUR

Reliable and competitive financial and insurance products and services

What it means

Financial service providers are responsible for ensuring that Albertans receive the services they have purchased. Finance regulates the credit union, insurance, loan and trust industries in Alberta, in the interests of depositors, insurance policy holders, insurance intermediaries, trust beneficiaries and the companies themselves.

Finance is working with the automobile insurance industry to implement recommendations from the government's review of automobile insurance, including issues respecting automobile injury claims and related premium increases. In addition, Finance will monitor issues that face the insurance industry and consumers with respect to general property and liability insurance in Alberta.

Strategies

- Implement recommendations from the government's review of issues respecting automobile insurance, including compensation for automobile injury claims and premium increases.
- Work with industry and consumer stakeholders to review the statutory provisions of the *Insurance Act* respecting insurance contracts.
- Ensure a supervisory framework is in place to govern Alberta Treasury Branches (ATB Financial) and that it is appropriate and comparable to that for private sector financial institutions.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Automobile Insurance Review completed	Review implemented and Bill 33 introduced	Recommendations implemented	—	—
Revision of <i>Insurance Act</i> respecting contracts	n/a	Review of <i>Insurance Act</i>	<i>Insurance Act</i> revised	—
ATB Financial supervisory framework implemented	n/a	Implemented	—	—

Core Business Three: Pensions Policy, Regulations and Administration

GOAL FIVE

Pensions that deliver on promises**What it means**

Pension plan members need to be assured that their benefits are secure. Employers and other plan sponsors need to know that pension regulation is fair and even-handed. Finance assesses private sector pension plan compliance with legislative standards and ensures that action is taken and 'at risk' plans comply with regulations. Finance will also continue to monitor funding of private sector pension plans.

The Department provides advice to the Minister of Finance on the financial soundness and governance of the public pension plans. Alberta Pensions Administration Corporation (APA) provides administrative services.

Finance works with the federal government and the other provinces to maintain the sustainability of the Canada Pension Plan and explores alternatives to allow Albertans to secure their retirement income. The Department provides support and information for government initiatives on public pension issues. In addition, Finance works with stakeholders and other jurisdictions across Canada to harmonize and streamline private pension legislation and regulatory processes.

Strategies

- In consultation with public pension boards and stakeholders, facilitate the improvement of pension governance frameworks.
- Review funding requirements for public pension plans.
- Review investment rules and returns for private pension plan assets.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Percentage of APA client members and employers satisfied or very satisfied with products and services	95% of clients and employers ¹	95% of clients and employers ¹	95% of clients and employers ¹	95% of clients and employers ¹
Improved pension governance frameworks	In progress	Developed and implemented	—	—
Percentage of private sector plans that meet minimum funding requirements	New	98%	98%	98%

¹ Average of client and employer satisfaction.

Core Business Four: Financial Services

GOAL SIX

Quality and competitive financial services accessible to Albertans and local authorities

What it means Alberta's dynamic economy and entrepreneurial spirit requires readily accessible and technologically advanced financial services and products. Alberta Treasury Branches (ATB Financial) and the Alberta Capital Finance Authority (ACFA) are public sector components of the financial services sector.

ATB Financial is a full-service financial institution, with the largest branch network in the province. It provides services to individuals, small businesses and the agri-industry in 240 communities across Alberta.

ACFA provides financing to a variety of local authorities including municipalities, towns, counties, hospitals, schools and post-secondary institutions throughout the province for capital projects.

Strategies

- ATB Financial continues to operate on sound financial institution and business principles with the objective of earning a fair return.
- ACFA will continue to provide local authorities within the province with flexible funding for capital projects at the lowest possible cost, consistent with the viability of ACFA.

Performance Measures

	Last Actual (2002-03)	Target 2004-05	Target 2005-06	Target 2006-07
Local authorities' cost of borrowing from ACFA relative to borrowing costs of other Canadian municipalities within the viability of the Corporation	Lowest ¹	Lowest	Lowest	Lowest
ATB Financial				
• Loan loss provisions as a percentage of average total loans	(0.39%)	0.30%	0.30%	0.35%
• Expenses to operating revenue	66.99%	66.15%	66.30%	66.11%
• Return on average assets (before tax)	1.55%	0.97%	1.06%	1.16%

¹ Lowest at short and long-term maturities, but slightly higher than the lowest rate in Canada for mid-term (i.e., 5 and 10 years) rates.

EXPENSE BY CORE BUSINESS

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
Fiscal Planning and Financial Management	550,923	542,246	359,342	445,247	412,264	393,519
Regulation of Provincial Institutions	4,521	4,928	5,942	5,652	6,046	6,174
Pension Policy, Regulation and Administration	24,834	28,430	27,822	27,792	27,537	27,407
Financial Services	331,703	315,965	323,007	314,057	292,973	274,691
MINISTRY EXPENSE	911,981	891,569	716,113	792,748	738,820	701,791

MINISTRY STATEMENT OF OPERATIONS

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
REVENUE						
Internal Government Transfers	280,243	95,679	115,886	84,365	105,995	93,858
Other Taxes	1,702	600	1,700	750	750	750
Transfers from Government of Canada	4,055	4,030	4,055	4,055	4,055	4,055
Investment Income	528,710	504,311	539,500	504,259	468,993	445,267
Premiums, Fees and Licences	19,406	26,582	15,039	20,341	21,800	23,352
Net Income from Commercial Operations	224,899	156,660	165,563	155,837	151,344	164,220
Other Revenue	126,144	28,313	26,830	27,593	26,783	26,618
MINISTRY REVENUE	1,185,159	816,175	868,573	797,200	779,720	758,120
EXPENSE						
Program						
Fiscal Planning and Accountability	7,735	9,338	8,727	9,270	9,218	9,018
Treasury Management	72,211	71,887	74,529	77,838	78,918	81,057
Financial Sector Operations	4,477	4,881	6,513	5,650	6,037	6,143
Public Sector Pension Policy and Administration	23,264	27,068	26,163	26,210	25,967	25,827
Financing to Local Authorities	331,263	315,518	322,172	313,595	292,526	274,236
Ministry Support Services	5,272	5,074	5,306	5,165	5,108	5,164
Valuation Adjustments and Other Provisions	(345)	300	200	-	-	-
Total Program Expense*	443,877	434,066	443,610	437,728	417,774	401,445
Debt Servicing Costs						
Department Voted	70,675	61,503	61,503	53,020	45,246	38,046
Department Statutory	397,429	396,000	211,000	302,000	275,800	262,300
Ministry Debt Servicing Costs	468,104	457,503	272,503	355,020	321,046	300,346
MINISTRY EXPENSE	911,981	891,569	716,113	792,748	738,820	701,791
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-
NET OPERATING RESULT	273,178	(75,394)	152,460	4,452	40,900	56,329

* Subject to the *Fiscal Responsibility Act*, Program expense includes the province's cash payments towards the unfunded pension liability (which will be eliminated under a separate legislated plan). Program expense does not include the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements. The annual increases (decreases) in the Ministry of Finance's unfunded pension obligations are:

81,349	(6,000)	(9,000)	(13,000)	(16,000)	(17,000)
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CONSOLIDATED NET OPERATING RESULT

(thousands of dollars)

	Comparable 2002-03 Actual	Comparable 2003-04 Budget	Comparable 2003-04 Forecast	2004-05 Estimates	2005-06 Target	2006-07 Target
Ministry Revenue	1,185,159	816,175	868,573	797,200	779,720	758,120
<i>Inter-ministry consolidation adjustments</i>	(350,139)	(174,274)	(185,762)	(158,297)	(185,887)	(177,352)
Consolidated Revenue	835,020	641,901	682,811	638,903	593,833	580,768
Ministry Program Expense	443,877	434,066	443,610	437,728	417,774	401,445
<i>Inter-ministry consolidation adjustments</i>	(175)	(196)	(164)	(194)	(194)	(194)
Consolidated Program Expense	443,702	433,870	443,446	437,534	417,580	401,251
Ministry Debt Servicing Costs	468,104	457,503	272,503	355,020	321,046	300,346
<i>Inter-ministry consolidation adjustments</i>	(87,575)	(95,394)	(86,703)	(89,726)	(94,503)	(96,716)
Consolidated Debt Servicing Costs	380,529	362,109	185,795	265,294	226,543	203,630
Consolidated Expense	824,231	795,979	629,241	702,828	644,123	604,881
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-
CONSOLIDATED NET OPERATING RESULT	10,789	(154,078)	53,570	(63,925)	(50,290)	(24,113)